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Imperial Preferential Trade

A PAPER READ BY
Mr. R. WILSON-SMITH

Before the Political Economy
Club of Montreal

On 10th November, 1905

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The question of Imperial Preferential Trade is so many-sided that it is hopeless to attempt to discuss it in all its aspects, within the limits of a paper of the ordinary length of those submitted for the consideration of this Club.

Fortunately, or perhaps unfortunately, certain features of the subject have been discussed so much during the last five or six years that it would be hard to say anything new or interesting with regard to them. Many of the utterances of public men, and of the press, upon this question, might properly be added to Mr. Punch's celebrated list of "Things Better Left Unsaid" because they have rather tended to becloud the issue by erroneous assumptions. British politicians have assumed the existence of conditions and sentiments in the colonies, of which we, who live in Greater Britain, are

unconscious: and colonial political economists have taken for granted the existence in the United Kingdom of a state of affairs of which the British elector is in happy ignorance.

I propose, therefore, this evening to confine my remarks only, or at any rate chiefly, to one or two aspects of one of the greatest problems in political economy ever submitted to a great nation, or confederation of nations, as you may prefer to regard it.

Is that putting it too strongly? Let me remind you that, as Mr. Cleveland would say "We are face to face with a condition, not a theory." And what is the condition? A league of self-governing peoples, dwelling over-seas, at immense distances from each other and from the Mother Country, united by a common allegiance and by strong sentimental ties, but divided by the fact that the Mother Country and the colonies respectively have each attained a degree of prosperity which is the envy of the world, under fiscal policies so divergent, as to appear at first sight absolutely irreconcilable.

There is nothing to be gained by ignoring or by unduly minimising the essential difficulties of such a situation, nor by any members of this imperial family of nations failing to recognize or appreciate the natural divergencies of opinion due to the differences in the point of view.

The United Kingdom is so far in advance of the rest of the world in trade and commerce that, as was said of one of the most celebrated Derbys ever run, it is a case of "*Eclipse*" first, the *rest* nowhere."

You can never make the average Briton believe but that the immense foreign trade, the enormous mercantile marine, even the vast colonial expansion

itself of the British Empire are due to England's glorious policy of free trade.

And let me add here, that I, who am a firm believer in the policy of reasonable protection for Canada, am quite willing to be counted with the average Briton upon this point.

On the other hand, you have the colonial Empire, "Britain over the seas" prospering as no other colonies have ever prospered, under a policy of protection.

To you as Canadians I say: "Put yourself in his place." Remember that from the days of Cobden, Free Trade has been part of an Englishman's religion; not merely a question of policy, but (perhaps on account of its success from a commercial point of view) a question of morals. To John Bull, Protection, is not merely unwise, it is unclean, almost wicked.

I take it for granted that all the members of the Political Economy Club are in favour of improving the commercial relations between the component parts of the Empire and of strengthening the ties which bind them together. That much being conceded, the question narrows itself, or shall I say gets less awfully wide, to the problem, how to reconcile these varying interests and opinions.

First let me advance the idea that business questions cannot be settled permanently upon a sentimental basis. As Mr. Tarte said, or, I rather think, did *not* say—"Business is Business."

Let me ask some of you gentleman who are Montreal merchants: "Are you in the habit of cutting prices to customers who happen to be Montrealers?" Or is it possible that the virtue of hospitality is so strongly developed in you, that you

do occasionally encourage the stranger within your gates, from New York, or Boston, by putting him on the most favoured customer basis? In either case I think I would be doing an injustice to your intelligence by imagining that sentiment had much to do with the matter.

Well, if we do not for sentimental reasons habitually favour the Canadian because he is a Canadian, why should we pretend to be anxious to favour the Englishman because he is an Englishman?

To go a step further, why should we expect the Briton in England to sacrifice his own interests for the benefit of another Briton simply because the other lives three thousand miles away?

The imperial sentiment is all right; and let us do all we can to encourage it, but do not let us delude ourselves with the idea that we can make it the basis of permanent business arrangements involving much sacrifice on one side or the other.

I do not, however, on account of the difficulties I have cited, despair of our finding eventually a means of improving the commercial conditions within the Empire. In fact, I have only mentioned them in order to indicate rocks that should be avoided. I am enthusiastically in favour of anything that will tend to promote inter-imperial trade; partly for business reasons and partly because I believe it will help to perpetuate the imperial connection which alone can (at least for many years to come) guarantee the practical independence of Canada.

The next thing we have to bear in mind is that England is a nation of shop-keepers, and that John Bull likes to be master in his own shop, in which respect his colonial sons are very much like him.

Then we must remember that Great Britain has not only world-wide interests but world-wide responsibilities with which we have no direct connection.

Changes in her fiscal policy reasonable enough in themselves may be regarded as indications of hostility towards powers with which it is her paramount interest to be on terms of cordiality.

The greatest difficulty of all, perhaps, is the tendency in both the Mother Country and the colonies to make this question of such vital importance to the whole Empire, the *sport of party politics*.

The problem then is to find a fiscal policy which will not violate the autonomy of the United Kingdom nor of the self-governing colonies, which will not destroy England's foreign trade nor check the industrial development of Greater Britain, which will not be offensive to foreign nations, and which will yet tend to promote trade between all parts of the British Empire.

Frankly, I do not believe that it is within the range of possibility for the ingenuity of mortal man to devise any cut and dried scheme which will bring into operation, at any given date, a policy which will fulfill all these conditions.

But I do believe, nevertheless, that a policy of this kind is attainable within a very few years by a process of rapid growth.

What we have to work for is not a cut and dried scheme immediately acceptable to all parts of the Empire, but *tendencies* which will at no distant date bring us into the closest possible commercial union with every free country flying the British flag, and with every other country that is willing to trade

with the British Empire upon something like equal terms.

I favour the adoption by the whole Empire, every part acting freely for itself, of an Imperial policy, which shall be at once a friendly offer and a friendly challenge, to the whole world, to do business on equal terms.

My suggestion is that the Imperial Parliament acting for the United Kingdom, and every Colonial Parliament acting for its own Colony, shall adopt a maximum and a minimum tariff, and give every country under heaven its choice which it will accept upon the usual reciprocal terms. The Parliaments should then delegate to their respective Governments full powers to extend to any other country the advantages of the minimum tariff, upon that country conceding similar privileges in return.

How does this scheme comply with the conditions I have just laid down? I submit that it cannot violate the autonomy of any part of the Empire because every part will legislate for itself and in its own interests. It will not destroy England's trade but will tend to increase it. It will not check the industrial development of Greater Britain because each colonial legislature can surely be trusted to frame its two tariffs with a view to the sufficient protection of its home industries. It cannot be offensive to foreign nations because there will be no discrimination against any country; the stranger will be offered the same trade conditions as the member of the family.

How then is *this* Imperial Preferential Trade, if the stranger is to be treated as one of the family?

My answer is that the ultimate interests of the British Empire and of every part thereof lie in the direction of universal free trade and that the adop-

tion of the Imperial Policy I have suggested would be the biggest step ever made in that direction.

When I say that the ultimate interests of every part of the British Empire lie in the direction of universal free trade, I by no means exclude Canada. I take it that most of us in the Dominion who are protectionists, are such not from any belief in protection as an economic principle of general application, but as a necessity arising out of our peculiar circumstances. Let us cultivate an intelligent faith in our own country.

I believe that Canada with her enormous wealth in natural resources, with her unequalled water powers, and with her hardy, industrious, and intelligent population, can hold her own in competition on fair and equal terms with the whole world. That we can be ahead on all lines of industry, I do not pretend. On the contrary, I would imagine that under the conditions I have foreshadowed certain lines of manufacture would by a process of natural selection be eliminated from Canadian industries; while others would be greatly developed, and no doubt new ones introduced. But I contend that this process of natural selection would work entirely in the best interests of the Canadian people as a whole. And those are the only interests that we have any right to hold supreme.

I am prepared to justify the granting of great and exceptional privileges to the manufacturing industries of Canada; not in the interests of the manufacturers, not in the interests even of what is called the industrial population, [which after all amounts to less than twenty per cent. of the entire population], but in the interests of the whole people of Canada.

In these days no country can be great or attractive without diversity of occupation and opportunity; and the farming, mining, lumbering and fishing population of Canada who form nearly one half of the people, would be very short-sighted, were they to begrudge to the industrial classes those privileges which are essential, in order to obtain for themselves the advantage of a home market and for their children the opportunity of diversity of occupation, without leaving the Dominion.

I do not claim that the adoption by the United Kingdom and each of the self-governing colonies of a system of double tariffs would lead to an immediate and great increase in trade between the component parts of the Empire. As I have already said, we are working not for a cut and dried scheme to go into immediate and complete operation, but for *tendencies*. It is an educational campaign upon which we have set out. We have to accustom the Briton in the United Kingdom to the idea of Fair Trade, as distinct from so-called Free Trade (which is only free on one side) without creating the impression that he is being asked to make substantial sacrifices for merely sentimental reasons. And we have to accustom the Briton in Canada and the other colonies to the idea that he can discriminate between the family and the stranger, between his commercial friends and his commercial foes, without the slightest danger to his very properly cherished autonomy. It must not be forgotten that many other factors enter into this problem of increasing trade and commerce between any two countries, besides that of tariffs.

How else can we explain the operation, I might perhaps call it inoperation, of the Canadian Preferential Tariff in favour of Great Britain?

Let me recall to you briefly the main outlines of that Tariff :

The Preferential Tariff provided that, on and after the 1st August, 1898, all imports from Great Britain shall come into Canada, on paying a duty to Customs of 25 per cent. less than that levied on goods from foreign countries. (2) A provision was made to aid the West Indies by admitting their products at the full reduction of 25 p.c., a similar provision for any other British Colony or possession, the customs tariff of which is, on the whole, as favourable to Canada as the British preferential tariff is to such Colony or possession; provided, however, manufactured articles admitted under such preferential tariff are *bona fide* manufactures of a country or countries entitled to the benefit of such tariff, and such benefits were not to extend to the importation of articles into the production of which there has not entered a substantial portion of the labour of such countries; and a provision that the reduction was not to apply to wines, malt liquors, spirits, spirituous liquors, liquid medicines, and articles containing alcohol, tobacco, cigars and cigarettes.

The following parts of the Empire were included in the preferential arrangement: The United Kingdom, Bermuda, British West Indies, Bahamas, Jamaica, Turks and Caicos Islands, Leeward Islands, Windward Islands, Barbados, Trinidad, Tobago, British Guiana, British India, Ceylon, Straits Settlement and New Zealand.

From July, 1900, the preference was raised from 25 p.c. to $33\frac{1}{3}$ p.c. And now let us see what have been the practical results of that interesting experiment so far as we can infer them from statistics.

COURSE OF IMPORTS FOR 8 YEARS PRIOR TO 1897 AND
FOR 8 YEARS SINCE AND INCLUDING THAT YEAR.

Year.	From Great Britain.	From United States.	Total.
	\$	\$	
1889.....	42,317,389	50,537,440	109,673,447
1890.....	43,390,241	52,291,973	112,765,584
1891.....	42,047,526	53,685,657	113,345,124
1892	41,348,435	53,137,572	116,978,943
1893.....	43,148,413	58,221,976	121,705,030
1894.....	38,717,207	53,034,100	113,093,983
1895.....	31,131,737	53,634,521	105,252,511
1896.....	32,979,742	58,574,024	110,587,480
Dec.....	9,337,647	Inc. 8,036,584	Inc. 914,033
Decrease per cent..	22.7 p. c.
Increase per cent....	15.7 p. c	8 3 p. c.
1897.....	29,412,188	61,649,041	111,294,021
1898	32,500,917	78,705,590	130,698,006
1899.....	37,060,123	93,007,165	154,051,593
1900.....	44,789,730	109,844,378	180,804,316
1901.....	43,018,164	110,485,008	181,237,988
1902.....	49,213,762	120,807,050	202,791,595
1903.....	58,896,901	137,605,195	233,790,516
1904.....	61,777,574	150,826,515	251,464,332
Inc. 32,365,386	Inc. 89,177,474	Inc. 140,170,311	
Increase per cent..	110.0 p. c.	144.6 p. c.	125.9 p. c.

These statistics show that the imports prior to 1897, were stagnant, the increase in 8 years, 1889 to 1896 having been only 8.3 p.c. In this stagnation the imports from Great Britain suffered the most, as they actually were reduced between 1889 and 1896 by 22.7 p.c. *This was owing to a series of bad years.* In 1897 a great revival of trade set in, which at once began to enlarge the imports. In this revival the British imports shared, so that from 1897 to 1904, they increased 110 per cent; the United States imports in the same years increased 144.6 per cent, or 34.6 p. c. more than the British,

and the total imports from all countries increased 125.9 p.c., or 15.9 p.c. more than the British; which had the advantage for six of these years of a preferential tariff.

Is it reasonable to attribute the increase in British imports after 1897 to the preferential tariff when their increase was less than the average for the whole imports?

Let us for a moment, in order to make every possible allowance for the increase which could possibly be attributed to the Preferential Tariff, take another view of these statistics. For instance, prior to 1897, there was an actual decrease of 22.7 p.c. in the imports from Great Britain, and an actual increase of 15.9 p.c. in the imports from the United States.

In the eight years following there was an increase of 110 p.c. in the imports from Great Britain, and an increase of 144.6 p.c. in the imports from the United States.

Suppose that we give the Preferential Tariff the credit of having stopped the downward tendency of British imports, as well as having started an upward movement; suppose that we add to the 110 p.c. increase of the last eight years the 22.7 p.c. of decrease in the previous years, we have an improvement in British imports of 132.7 p.c.

Then, on the other hand, suppose we deduct from the 144.6 p.c. of United States imports in the last eight years, the 15.9 p.c. of increase in the previous eight years, we have a net improvement in United States imports of 128.5 p.c.

In other words, giving the British preference the utmost possible credit for results so far as can be proven by figures, the British imports have only

increased 4.2 p.c. more than the United States imports in the eight years, during about six of which the preference has been in existence. I am not saying this in depreciation of the Preferential Tariff, but simply to point out that, for some reason, the preference has failed to produce as great results as were naturally expected. We must not, therefore, assume too readily that discriminating tariffs *alone* will bring about immediate radical improvement in the trade between the different parts of the Empire. Nor, on the other hand, need we take it for granted that, because a one-sided experiment in preferential trade on a comparatively small scale has apparently failed to produce anticipated results, therefore, a bigger experiment on similar lines would be a failure. Then it must be borne in mind that no figures can possibly show how much *worse* the imports from the United Kingdom into Canada might have looked but for the preference.

There is one advantage which the American exporter will always enjoy over the English exporter in supplying Canada with his wares; and that is, nearness to the market. The advantage is not so much in the matter of the cost of transportation as in the economy of time. A merchant in Montreal, or Toronto, can obtain goods from the United States in from twenty-four to forty-eight hours, whereas to obtain similar articles from England is a matter of from two to three weeks at the best. This in itself is a serious handicap to the British exporter. Then complaints are sometimes made of the traditional conservatism of the English houses, of their reluctance to accommodate their methods to the tastes of their colonial customers. They are also said to be less elastic in the matter of credit than their competitors in the United

States; and, finally, the Americans are more active and aggressive in their inroads upon the Canadian markets. Most of the principal American manufacturing establishments are represented in Canada by permanent resident agents.

The fierce opposition aroused in England by Mr. Chamberlain's splendid campaign in favour of Imperial Preferential Trade impresses me with the conviction, that the difficulties in the way of making anything of the nature of treaties of commerce between the mother country and the colonies on a preferential basis, are too great to be overcome in a few years. I cannot sufficiently express my admiration for the courage and ability with which Mr. Chamberlain has taken hold of this question, and has at least succeeded in making what would have been laughed to scorn a few years ago—*a live issue in British politics*.

To sum up my argument, we have a great educational work to do. We must aim, not so much to bring about a fiscal revolution within the Empire immediately, but rather to give such direction to fiscal reform movements all over the British Empire, that they will tend to a common centre, a common object. To do this effectually, we must respect prejudices that we do not share, and we must credit our friends over the seas with knowing something about their own business.

Lastly, looking at the matter entirely from the point of view of our own interests, we must remember that the question is not wholly one of trade and commerce. No nation of five to six millions of people, in the whole world, has its independence so amply or so cheaply guaranteed. The Imperial connection, which is our safeguard, neither restricts our liberties, nor costs us a dollar; and is the best

asset we possess. The time is coming (I hope soon) when, for our credit's sake, we shall ask the privilege of contributing in some form to the cost of the defence of the Empire. Incidentally, we are aiding in this defence by the construction of our transcontinental railways. A few thousand miles of railway in South Africa might have saved thousands of English lives, and millions of English money. A double track on the Trans-Siberian Railway might have saved the Russian Empire from disastrous defeat. No one, however, pretends that our transcontinental railway enterprises are primarily intended as a contribution to Imperial defence, valuable as they may be for that service incidentally.

Canada is becoming rich enough in financial resources, and self-respecting enough to assume some portion of the responsibilities, and to bear her fair share of the cost of Imperial defence.

